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Mr. M. L. Buckler  
Mr. W. J. Duffy  
✓ Mr. M. L. Jones  
Mr. R. A. Pettorini  
Mr. S. G. Steen  
Mr. B. K. Stockdale  
Mr. T. W. Trader

Gentlemen:

SUBJECT: NAG - RJR Roundtable Discussion  
March 15, 1996 - Dallas, TX

As a result of participating in the RJR sponsored roundtable discussion with Tom Trader and Mickey Jones at the NAG conference, I will attempt to capture the essence of the conversation.

The discussion was attended by the following retailers:

Bill Kittrell  
Tip Top Convenience/Big K Food Stores  
Hattiesburg, MS

Bill Kent  
Kent Oil, Inc.  
Midland, TX

John MacDougall  
Nice-N-Easy Grocery Shoppes, Inc.  
Canastota, NY

Rice Horkey  
Harkey Oil Company  
Lubbock, TX

Bill Spence  
Love's Country Stores, Inc.  
Oklahoma City, OK

Louie Sheetz  
Sheetz, Inc.  
Altoona, PA

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The discussion was centered around the following five topics:

- Category Management (Exclusivity vs. Industry)
- Managing Three Price Tiers For Profit
- Importance Of RDA's vs. Promotions
- Cashier/Manager Support At Retail Placing Displays/P.O.S.
- Preventing Tobacco Sales To Minors

The subject matter proved to be more than could be discussed in a three hour time frame.

- Category Management:

The cigarette category continues to be of significant importance to all of these operators. In light of the constant turmoil in the Tobacco category and industry, there is a good deal of concern and apprehension in having such a strong sales/profit dependency on the category. Quite candidly, it was stated that if overall profitability could be maintained and dependency could be reduced - this would be embraced.

There was no desire in the room to pursue an exclusive approach to the category. Our industry approach to the category was echoed by the group. A couple of participants have chosen not to participate with PM programs due to "Masters" demands placed on them - despite advice from RJR representatives to the contrary. A loud and clear message came across that the retail trade does not like having a manufacturer tell them what they can do in their store.

The subject of choosing a Category Advisor was across the board. While the majority of the participants have closely aligned with RJR, it boils down to a personal connection based upon trust and honesty.

Information needs were centered around an unbiased opinion on SKU reduction. All of the participants were concerned about SKU proliferation and minimizing unproductive SKU's in their stores. The consensus is that soda and beer distributors did the best job as Category Advisors. They tend to be the most in touch regarding what sells and why in their markets. It must also be said that the distributors make weekly calls and handle the distribution of their products. This provides them with an informational and contact advantage over our bi-weekly or monthly contact.

The most valuable service the manufacturer can bring to the retailer is the ability to best meet the consumers needs. With this in mind... our industry approach is the right thing.

We discussed the potential of scanning in the future of these stores. Currently about one half of the participants are scanning or are setting up the system. Implementation appears to be the issue. Setting up the UPC's, etc. is time consuming and ever changing. While scanning provides a great deal of information... it drives an overload. None of the scanning participants feel they are utilizing the system to it's potential. The major benefit derived from the system is

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inventory control/accurate pricing. This benefit has saved the chains money but was an unexpected gain. As a manufacturer we could assist in the implementation by providing UPC information for loading. Assisting in hardware/software would be difficult due to the many types of registers, etc.

- Counter consolidation is a major concern. The additional equipment finding it's way on the counter (i.e. Food Service, Gas Consoles, Lottery) has taken away space. In some cases it has bumped cash registers which reduces our display space. In addition, the drive to reduce clutter, pilferage and enhance image is an objective. Many of the participants expressed a desire to look less like a smokeshop. An overabundance of displays is creating this look. It was a consensus that four or five displays would be optimum. This creates the need for companies to be eliminated from display participation. In some instances, consumers are complaining about the amount of cigarette displays/advertising present. This was not a Northeast situation... instances in the South exist.

Oddly enough we heard about the growth of the drive-through window in C-Stores. This appears to be starting to expand to capitalize on the rushed consumer.

- Managing Three Price Tiers For Profit:

Not a lot of time was spent on this subject. Many of the participants have private labels. They realize as we do... some shoppers are only driven by price and an EDLP is needed.

- Importance Of RDA's Versus Promotions:

Guess what... retailers think negotiating contracts is a pain in the butt! Despite that revelation a one year contract is best due to the volatility of the industry. RDA's continue to play a major role in their budgetary process but it is diminishing.

On the whole the group was open rolling RDA's to promotional dollars. There was a good deal of interest in a more performance based program... similar to the Forsyth approach. The only downside I can see is that our "presence" needs get watered down. The upside is within this group, the concept of reducing RDA's and strengthening promotional dollars was not automatically discounted.

The most vocal desire was the need for increased program flexibility. The participants all agreed that more of menu type approach would be beneficial. While some retail accounts would like to utilize the traditional type programs (i.e. 2 Full Price, 1 Savings, etc.), the need exists to offer more performance driven programs. Alternative types of presence vehicles would be required... signage, etc. This message was very loud and clear. Avoid "cram down" programs.

- Cashier/Manager Support At Retail Placing Displays/POS:

The group response was very disappointing. Little initiative or desire was expressed to provide assistance at retail. While they asked for more manufacturer flexibility; little or no retail support was offered in return.

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Due to time constraints, we were unable to fully explore this topic. I do feel that opportunity exists if we are able develop programs/concepts which would incent the retailer through increased sales.

- Preventing Tobacco Sales To Minors:

The group is aware of the "We Card" program. Regardless of the customer trading area, they were all faced with pressures relating to tobacco.

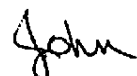
Much to our surprise, none of the participants considered the cigarette outlets or in particular "Customer Company" as a big threat. They saw the growth coming primarily from the supermarket class of trade. The "Customer Company" was known by the group but wasn't considered a major threat. It must be said that none of the participants have been directly affected as of yet.

One immediate request was that RJR respond to the trade about the pressing issues (i.e. - FDA, litigation, Laws, etc.) to help keep them informed. There is a good deal of concern about the category.

The biggest positive is that there is a strong desire for RJR to win. PM is perceived to have a "hot product attitude" and cares only about themselves. It is felt that we have a good opportunity to make strong inroads.

I trust this summarizes the event. If you have any questions, please let me know.

Sincerely,



J. D. Boehm

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